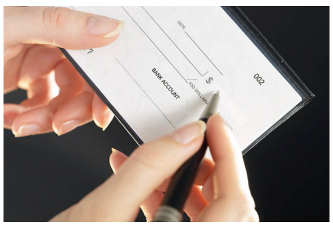
Consumer Alert

A publication by the South Carolina Department of Consumer Affairs

Overdraft protection may not leave you feeling safe

Overdraft protection plans promise to limit the expense of overdrawing on your account, but critics say a lack of choice in enrollment, high fees, and unfair banking practices may make this an unwise option for consumers.



Chances are you are enrolled in some form of an overdraft protection plan, whether you know it or not. Many banks automatically enroll consumers into the plans and some don't even allow the option of opting out.

Typically, overdraft protection plans work in one of two ways: 1) By linking the account with another checking or savings account as a backup to cover the insufficient funds, or 2) The bank covers the difference and treats it as a small, short-term loan.

In both cases, the bank charges for the service. The former is usually covered by a set fee per use, while the latter comes in the form of a high-interest rate.

Best way to pay

Consumer advocates say the best method is the standard overdraft protection that is offered when the checking account is opened and involves a signed agreement between the bank and the customer.

Consumers can link a savings account or a credit card to their checking account, ensuring any overdraft hits the linked account rather than the overdraft program. These programs are also pretty pricey with banks charging a fee of $3 to $5 per overdraft. Linked credit cards are charged at a cash-advance rate that can be quite high.

Baring you don't allow the balance to linger, this is still generally cheaper than the typical $35 uncovered overdraft fee.

Another contractual agreement can set up a line of credit, where the bank agrees to lend the customer money that will cover the overdraft. The main charge for this service, according to an FDIC survey, is the interest charged on the money advanced. The typical annual percentage rate charged is 18 percent.

A third method is the much-maligned automatic overdraft. Many checking account customers are enrolled in this service, whether they realize it or not. There is no

➔

In this issue

May/June 2009
V/I 5.3

Overdraft protection may not leave you feeling safe

signed contract and no guarantee on the bank's part that the overdraft will be paid. Most banks allow customers to opt out of the program, but when your only notification is a mail insert, there's a decent chance you'll toss the insert away without reading it.

Customers can incur an automatic overdraft by overdrawing their accounts by check, by ATM or by debit card at the point of sale. The study found that overdraft fees ranged from $10 to $38, with a median fee of $27. In addition, one-quarter of the banks surveyed charged an additional fee as long as the account remained in the negative. Previous surveys have shown that these fees, sometimes as much as $5 or $10, often are charged on a daily basis.

Always keep an eye on your bank account. Checks that overdraft your account lead to hefty fees.

Not surprising

The findings of this FDIC study are no surprise to consumer advocates.

For years, studies by consumer groups of automatic overdraft programs have shown them to be short-term loans that cost consumers billions in fees, while often denying them the ability to make an informed choice.

The difference this time around is a federal banking regulator has arrived at statistics that paint the same picture — most customers aren't informed of the overdraft until after the ATM or point-of-sale transaction has taken place. High fees mean that someone who overdraws his account at the ATM by $20 and is charged the median overdraft fee of $27, would incur an annual percentage rate of 3,520 percent if he repaid the loan in two weeks.

Big money for banks

How much does all this add up?

A 2007 study by the Center for Responsible Lending said consumers pay fees of $17.5 billion annually on automatic overdraft loans of $15.8 billion per year. A Bankrate study of overdraft fees found that the average fee the five largest banks and the five largest thrifts in each of the top 10 metropolitan markets charged was $29.

It's your fault for overdrawing – or is it?

A report by the Center for Responsible Lending said that a number of bank policies make it tough for consumers to keep track of their balances. As a result, fees for overdrafts have soared to an estimated $7.8 billion annually.

For example, if you use a debit card at a gas station it's likely that the station will put a hold of $50 to $75 on your bank account, even if your total charge was only $10 or $20. If you're unaware of the hold, as many consumers would be, you could proceed to use your debit card for a $2 soda, a $3 snack and a $5 lunch — all of which would be easily covered by the money that's left in your account — but still face $105 in overdraft fees as a result of the hold.

Additionally banks are increasingly changing the order in which they process incoming checks when debiting your account. Typically, they subtract big checks (and debits) before small ones, even if the small items come in first. The banks argue that this, too, is a courtesy because big checks are often for important payments, such as the mortgage or rent, and could have serious repercussions if bounced.

Consumer groups suspect a more practical motive: If checks were paid in order, it could result in far fewer overdraft fees. Consider a consumer who had a $100 balance, and wrote 10 checks (or used her debt card 10 times) for small items that added up to $40, then wrote a $100 check that caused an overdraft. If the transactions were processed in order, the consumer would get hit with one $35 fee, when the $100 check was presented. But, if the bank changed the order, subtracting the $100 first, the consumer would get hit with $350 in fees — $35 for each of those 10 little charges.

The best advice

Contact your bank to find out if you're enrolled in an automatic overdraft protection plan. If you are, get the specific details of how it works and what charges you can expect.

Outside of that, paying close attention to your checking account is the best way to avoid overdraft protection plans altogether.

Don't let a reverse mortgage loan strip the equity out of your home

Before taking out a reverse mortgage, be sure you have the facts about cashing in on your home's equity.

Whether seeking money to finance a home improvement, pay off a current mortgage, supplement their retirement income, or pay for healthcare expenses, many older Americans are turning to "reverse" mortgages.

These loans allow older homeowners to convert part of the equity in their homes into cash without having to sell their homes or take on additional monthly bills.

In a "regular" mortgage, you make monthly payments to the lender. But in a "reverse" mortgage, you receive money from the lender and generally don't have to pay it back for as long as you live in your home. Instead, the loan must be repaid when you die, sell your home, or no longer live there as your principal residence.

Reverse mortgages can help homeowners who are house-rich but cash-poor stay in their homes and still meet their financial obligations.

To qualify for most reverse mortgages, you must be at least 62 and live in your home. The proceeds of a reverse mortgage are generally tax-free, and many reverse mortgages have no income restrictions.

Three Types of Reverse Mortgages

The three basic types of reverse mortgage are: single-purpose reverse mortgages, which are offered by some state and local government agencies and nonprofit organizations; federally-insured reverse mortgages, which are known as Home Equity Conversion Mortgages (HECMs), and proprietary reverse mortgages, which are private loans that are backed by the companies that develop them.

Single-purpose reverse mortgages generally have very low costs. But they are not available everywhere, and they only can be used for one purpose specified by the government or nonprofit lender, for example, to pay for home repairs, improvements, or property taxes. In most cases, you can qualify for these loans only if your income is low or moderate.

HECMs and proprietary reverse mortgages tend to be more costly than other home loans. The up-front costs can be high, so they are generally most expensive if you stay in your home for just a short time. They are widely available, have no income or medical requirements, and can be used for any purpose.

Before applying for a HECM, you must meet with a counselor from an independent government-approved housing counseling agency. The counselor must explain the loan's costs, financial implications, and alternatives.

The amount of money you can borrow with a HECM or proprietary reverse mortgage depends on several factors, including your age, the type of reverse mortgage you select, the appraised value of your home, current interest rates, and where you live. In general, the older you are, the more valuable your home, and the less you owe on it, the more money you can get.

The HECM gives you choices in how the loan is paid to you. You can select fixed monthly cash advances for a specific period or for as long as you live in your home. Or you can opt for a line of credit, which allows you to draw on the loan proceeds at any time in amounts that you choose.You also can get a combination of monthly payments plus a line of credit.

HECMs generally provide larger loan advances at a lower total cost compared with proprietary loans. But owners of higher-valued homes may get bigger loan advances from a proprietary reverse mortgage.

Loan Features

Reverse mortgage loan advances are not taxable, and generally do not affect Social Security or Medicare benefits.

➔

CONTINUED: Don't let a reverse mortgage loan strip the equity out of your home

You retain the title to your home and do not have to make monthly repayments. The loan must be repaid when the last surviving borrower dies, sells the home, or no longer lives in the home as a principal residence.

In the HECM program, a borrower can live in a nursing home or other medical facility for up to 12 months before the loan becomes due and payable.

As you consider a reverse mortgage, be aware that:

Talk it over with family and an attorney before considering a reverse mortgage loan.

Lenders generally charge origination fees and other closing costs for a reverse mortgage. Lenders also may charge servicing fees during the term of the mortgage. The lender generally sets these fees and costs.

The amount you owe on a reverse mortgage grows over time. Interest is charged on the outstanding balance and added to the amount you owe each month. That means your total debt increases over time as loan funds are advanced to you and interest accrues on the loan. Compounding interest on these loans eats the equity you've built into your home without any financial return.

> "If you are considering a reverse mortgage, shop around to compare your options and the offered terms.

Reverse mortgages may have fixed or variable rates.

Reverse mortgages can use up all or some of the equity in your home, leaving fewer assets for you and your heirs.

Because you retain the title to your home, you remain responsible for property taxes, insurance, utilities, fuel, maintenance, and other expenses. So, for example, if you don't pay property taxes or maintain homeowner's insurance, you risk the loan becoming due and payable.

Interest on reverse mortgages is not deductible on income tax returns until the loan is paid off in part or whole.

Getting a Good Deal

If you are considering a reverse mortgage, shop around to compare your options and the offered terms. Learn as much as you can about reverse mortgages before you talk to a counselor or lender.

If you want to make a home repair or improvement or need help paying your property taxes, you may want to find out if you qualify for any low-cost, single-purpose loans that may be available in your area. Area Agencies on Aging (AAAs) generally know about these programs.

If you are interested in a federally-insured HECM, know that all HECM lenders must follow HUD rules, and that many of the loan costs including the interest rate will be the same no matter which lender you select. Still, some costs including the origination fee, other closing costs, and servicing fees may vary among lenders.

If you live in a higher-valued home, you may be able to borrow more from a proprietary reverse mortgage. But it generally will cost more. The best way to see key differences between a HECM and a proprietary loan is with a detailed side-by-side comparison of future costs and benefits. Many HECM counselors and lenders can provide you with this important information. No matter which type of reverse mortgage you are considering, be certain you understand all the conditions that could make the loan due and payable.

For more about Reverse Mortgages:

AARP Foundation
1-800-209-8085
www.aarp.org/revmort/list

U. S. Department of Housing and Urban Development
1-888-466-3487
www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm

Federal Trade Commission
1-877-FTC-HELP
www.ftc.gov

S.C. Department of Consumer Affairs
1-800-922-1594
www.scconsumer.gov

Be a Savvy Consumer

Be cautious if anyone tries to sell you something, like an annuity, and suggests that a reverse mortgage would be an easy way to pay for it. If you don't fully understand what they're selling, or you're not sure you need what they're selling, be even more skeptical.

Keep in mind that your total cost would be the cost of what they're selling plus the cost of the reverse mortgage. If you think you need what they're selling, shop around before you buy.

No matter why you decide to take a reverse mortgage, you generally have at least three business days after signing the loan documents to cancel it for any reason without penalty. Remember that you must cancel in writing. The lender must return any money you have paid so far for the financing.

Card denied? What the...?

Even with money in the bank your account may be frozen. Here's why.

Let us explain...

Have you ever been told you were over your credit card limit, or had your debit card declined, even though you knew you had available credit, or money in your bank account?

If this happened shortly after you stayed in a hotel or rented a car, the problem could have been card "blocking."

What's blocking?

When you use a credit or debit card to check into a hotel or rent a car, the clerk usually contacts the company that issued your card to give an estimated total. If the transaction is approved, your available credit (credit card) or the balance in your bank account (debit card) is reduced by this amount. That's a "block." Some companies also call this placing a "hold" on those amounts.

Here's how it works: Suppose you use a credit or debit card when you check into a $100-a-night hotel for five nights. At least $500 would likely be blocked. In addition, hotels and rental car companies often add anticipated charges for "incidentals" like food, beverages, or gasoline to the blocked amount. These incidental amounts can vary widely among merchants.

If you pay your bill with the same card you used when you checked in, the final charge on your credit card, or final amount on your debit card, probably will replace the block in a day or two. However, if you pay your bill with a different card, or with cash or a check, the company that issued the card you used at check-in might hold the block for up to 15 days after you've checked out. That's because they weren't notified of the final payment and didn't know you paid another way.

This general idea isn't new. Credit-card companies have done it for a long time. For example, when you rent a hotel room or a car, and the attendant runs your card upon your arrival to ensure you can pay for it. It's less of an issue with credit-card owners, however, because you're usually told that it's happening and you're probably not flirting with your credit limits.

Why blocking can be a problem

Blocking is used to make sure you don't exceed your credit line (credit card) or overdraw your bank account (debit card) before checking out of a hotel or returning a rental car, leaving the merchant unpaid. Blocking is sometimes also used by restaurants for anticipated sizeable bills (like large groups at dinner or a party), by companies cleaning your home, and other businesses to ensure credit or account money will be available to complete payment.

If you're nowhere near your credit limit or don't have a low balance in your bank account, blocking probably won't be a problem. But if you're reaching that point, be careful. Not only can it be embarrassing to have your card declined, it also can be inconvenient, especially if you have an emergency purchase and insufficient credit or money in your bank account. On debit cards, depending on the balance in your bank account, blocking could lead to charges for insufficient funds, on average $35, while the block remains in place.

Some banks say users of its debit cards won't experience bounced checks if debit card blocks disappear on the same day as they're put in place. However, if the block stays on for more than a day, then it becomes a little unclear, though some banks insist insufficient funds fees will be waived.

There are also different policies regarding the availability of the blocked money. In some cases consumers may not be able to withdraw blocked funds at the ATM.

Blocking at the pump

All of this can become especially tricky at the gas pump, where many consumers are unaware a block is put in place on their debit card.

If you use your debit card at a gas pump that does not require a PIN, your bank regularly will block out an amount – often $50 or $75 – on your card.

➔

Even with money in the bank you account may be frozen

That amount doesn't "un-block" as you drive away.

Instead, the hold remains up to 72 hours, until the station does a "batch" transaction that lets the bank know the actual amount, according to the U.S. Public Interest Research Group.

While the length of the hold is up to your bank, the amount of the hold is up to your gasoline retailer.

Each big oil company has a different policy: Shell says it preauthorizes just $1 for gas purchases, for example. Chevron says it has a $1 hold that ensures a card is active. British Petroleum preauthorizes $75 when customers use debit or credit cards, said spokeswoman Sarah Howell. Hess asks for $75 as well.

The reasoning behind this policy is that oil companies don't know how much gas you're about to pump – only PIN-based debit transactions are processed immediately – and so they earmark a certain amount of your money.

The pain at the pump can be particularly hard to bare, as the following scenario could easily play out: You use your debit card for gas and it's blocked $75 and you only have $75 in the account. You then go inside for a drink, maybe next door for some fast food, and before you know it a few small purchases have overdrawn on the account with the chance for a penalty on each transaction.

To avoid the aggravation that blocking can cause, follow these tips:

- When you check into a hotel or rent a car - or if a restaurant or other business asks for your card in advance of service - ask if the company is "blocking," how much will be blocked, how the amount is determined, and how long the block remains in place.
- Consider paying hotel, motel, rental car, or other "blocked" bills with the same credit or debit card you used at the beginning of the transaction. Ask the clerk when the prior block will be removed.
- If you pay with a different card, by cash, or by check, remind the clerk you're using a different form of payment and ask them to remove the prior block promptly.
- Ask your current debit card issuer if they permit blocks, for how long, and from what types of merchants. If they do, you may want to consider getting an overdraft line of credit from your bank. Ask about a plan that always automatically covers the overdraft and does not involve a separate bank decision on whether or not to pay it each time. Although you might incur some interest on this plan if you don't pay off the amount fairly quickly, you would not have an overdraft that is not paid.
- In addition, if you are considering a credit or debit card, shop around. When comparing credit and debit card offers, ask issuers if they permit blocks, for how long, and from what types of merchants. You may want to consider an issuer that uses shorter blocks.
- Use gas pumps that ask for a PIN number, to avoid blocks on gas purchases.

Have you enjoyed this issue? Pass it on!

If you enjoyed this issue of the Consumer Alert, just wait until the next one! To subscribe to our e-newsletter simply e-mail the editor at cellison@scconsumer.gov. And, feel free to forward it to your co-workers, friends, and family.

Is it worth it?

Programmable Thermostats

YES. Programmable thermostats save energy, which in turn saves you money.

These thermostats typically have a digital interface that allows more precise temperature control and a wider range of options and features.

The most important feature allows users to set temperatures according to their schedule. It allows for more comfortable temperatures in the morning before occupants wake, while cutting back during the day.

These thermostats can store and repeat settings daily with allowance for manual override. This cuts out the need to remember to set change the setting, which is easily forgotten. Temperature setback can be adjusted for both heating and cooling seasons.

The initial cost of a programmable thermostat can vary according to model and features. Generally the prices range from $30 to $300 with most models coming in at under $100. After the initial cost of the unit, there is no additional cost for using this type of thermostat, while the savings in energy will continue each month.

It’s no secret! Secret shopper scams continue to be a problem

The South Carolina Department of Consumer Affairs is responding to a flood of phone calls and e-mails regarding *secret shopper* scams. Consumers looking for legitimate work-at-home opportunities are asking questions. That’s the good news. Asking questions is the one of the best methods for uncovering a phony deal. Unfortunately, consumers must carefully sift through a myriad of offers – an average of 55, according to experts – before they find one legitimate opportunity to bring in a little extra cash. And that’s the bad news.

Consumers across the state have been receiving offers for good pay and free products in return for sending in customer satisfaction surveys for various retail locations. Unfortunately, employers for these secret shopper positions require money upfront and never make good on their end of the bargain. Consumers are often provided a check in the mail to help them with their initial purchases. The majority of the money, however, is requested back in the form of a money order or wire transfer – which can’t be traced once the consumer realizes the original check was fake.

Consumers are sought out by these so-called “mystery shopping” organizations or companies. Consumers who may or may not be looking for work are likely to be intrigued with the offer when it appears in their mailbox. Letters even state a consumer has been pre-approved prior to any communication from the consumer, which only furthers many consumers’ desire to respond quickly.

The Department strongly advises consumers to keep the following tips in mind regarding secret or mystery shopping opportunities:

· Legitimate companies will not solicit you. You should solicit them.

· Legitimate companies will not pay you upfront. You must pay a membership fee.

· Legitimate companies will not pre-approve you. You must qualify on your own.

· Legitimate companies will not operate through wire transfers or money orders. These are virtually untraceable forms of exchanging funds.

New YouTube videos added

We’ve posted three new videos to our YouTube channel, SCDCATV.

The Truth About Wage Garnishment: When they can and can’t take your money
http://www.youtube.com/watch?v=4biiMI4j42o
This video details the three specific instances when your wages can be garnished. This can occur when you owe money to the government, for child support, or were a resident of another state and had a garnishment order against you and then moved to S.C.

Step-by-step how to freeze your credit report
http://www.youtube.com/watch?v=wIfdbkF4Geg
This video explains how to freeze your credit, how to thaw, or temporarily remove the freeze, and how to permanently remove the freeze all for free.

Scams are taking off on Twitter
http://www.youtube.com/watch?v=Q91MCQhkvlo
The Department of Consumer Affairs is warning consumers to be on the lookout for scams on Twitter.

About the South Carolina Department of Consumer Affairs

Established by the Consumer Protection Code in 1974, the South Carolina Department of Consumer Affairs represents the interest of South Carolina consumers. Our mission is to protect consumers from inequities in the marketplace through advocacy, meditation, enforcement, and education. For more information on the SCDCA,visit **www.scconsumer.gov.**

Our mission is to protect consumers from inequities in the marketplace through advocacy, mediation, enforcement and education.The Department strives to be a **CREDIT** to our State by holding the following values as essential in our relationships and decision-making:

Competence **R** espect **E** quality **D** edication **I** ntegrity **T** imeliness

The *Consumer Alert* is published every month. To receive the *Consumer Alert* or its sister publication *Fraud Alert* by e-mail or postal service contact Charles Ellison at ellison@scconsumer.gov or by phone 803.734.4203.

The Commission on for SCDCA Consumer Affairs

Dr. Lonnie Randolph Jr., Chair, Columbia
The Honorable Mark Hammond, Secretary of State, Columbia
Barbara B. League, Greenville
Louis Mayrant Jr., Pineville
Rev. Tony Macomson, Cowpens
Wayne Keith Sims, Columbia
Wayne Powell, Gaffney
David Campbell, Columbia
Carole C. Wells, Woodruff

Brandolyn Thomas Pinkston, Administrator
Alice Brooks, Director of Public Information
Charles Ellison, Editor Consumer Alert